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# FIRE INSURANCE



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### ADDRESS

DELIVERED BY

B. E. WALKER, Esq.,

In proposing the toast to "Fire Insurance Interests" at the  
Annual Banquet of the Insurance Institute of  
Toronto, October 11th, 1904.

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TORONTO, OCTOBER 11TH, 1904

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*Mr. President and Gentlemen of the  
Insurance Institute of Toronto :*

I would first like to make you aware that I am very deeply sensible of the compliment you have paid me. I believe I am the only layman who has been asked to speak to-night. I think it is very presumptuous indeed of me to attempt to deal with the subject of fire insurance. And I am particularly unfortunate in having to speak on a subject which has been dealt with by so able an expert as Mr. Morrissey. Indeed how I am to say anything new about fire insurance, after all that has been said, I cannot very well at this moment imagine. You must not expect that at this late hour I can re-arrange such thoughts as I have, and if I repeat what has been said before you must bear with me. I wish also to say that I am just as sorry as you must be that, after hearing so many jokes and such splendid music, we should be called upon to return to serious business. I fear that if I am to deal with the subject of fire insurance I shall have to speak about it from a serious standpoint, not interspersed to any extent with jokes, ancient or modern.

I would like to speak first about the interest attaching to the creation of institutes. The bankers about 1890 established an association which, while it has served their purpose in the matter of legislation and in conserving the powers of banks, was also intended to be an educational institution for the associates. It has not become that; it has simply remained a useful instrument

for the banks' own purposes, and has failed in its educational duties. I wish to compliment the insurance men of Toronto on having been able to establish an Institute at this early period in the life of this country. When we look to Europe and Great Britain and see the extent to which institutes are being established for the purpose of developing the professional side of certain businesses—certain businesses which we sometimes like to call professions, yet which are not exactly professions,—we cannot expect in this new country, with our less accumulated experience, that we should be able to do as much in that way as they do in the Old World; and when an institution of this kind has been started, we cannot, I think, measure too highly the benefit to the industrial and intellectual development of this country which has been done by the men who have been unselfish, intelligent and far-seeing enough to establish it. You may be doing a work now which twenty, thirty or fifty years from now will have grown to be so important that the names of the men who have founded this body will form an imperishable roll of honour in the insurance world of Canada.

One of the noticeable things in a new country is that it passes at first through a kind of half-baked or barbaric stage of business. Mr. Morrissey alluded to it when he said that we had passed the time when a man who had failed at everything else would do for an insurance man. We all remember the time when any clever man in the community was quite satisfied as to his ability to edit a newspaper, to manage a hotel or an insurance company. We can all remember the time when we did not require that the boy behind the druggist's counter, who made up the prescriptions, should pass an examination. Ordinary kinds of business can have no professional side to them until the natural safeguards of society and the accumulated experience which will enable us to lay down principles have been developed. This half-baked condition is perfectly natural in a new country, but every enterprising country should wish to pass from it and enter upon a higher state at as early a period in its history as possible.

When we turn to fire insurance, I have often wondered about many things in connection with it. From a layman's point of view I have wondered whether we can yet recognize any underlying principles which should lift fire insurance into the

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condition scientifically that we at all events imagine life insurance to be in. A layman looking at the risks of fire insurance thinks of certain quite obvious elements—not of the more complicated kind to which Mr. Morrissey has referred, because a layman does not think much beyond the points I am about to mention, which shows, I suppose, how little we understand the matter. We think of the property or building to be insured; the material of its construction, if it is a building; whether electricity or steam, or anything of that kind is to be employed; whether there are dangerous commodities inside of the building or adjacent to the property to be insured; we think of the risks that the company has in the immediate neighbourhood; we think of the risks the company has in the city; we consider the morale of the man to be insured and the morale of his neighbours, and the morale of the city in which he lives. We bankers suppose that the fire insurance men also consider the condition of the trade in which the insured is engaged, and the condition of the trade of the country as a whole. These are just the palpable things which occur to a layman.

I entirely agree with Mr. Morrissey that the fire insurance man should be the best informed man in the business community. I used to think a banker needed to know pretty nearly everything, but I have come to the conclusion that the banker does not need to know anything like as much as the fire insurance underwriter. With all these complicated elements in fire insurance, so very much more difficult than in life insurance, is it likely that in the near future the broad principles can be so determined that the business of fire insurance may rest upon truly scientific principles, so that the fire insurance underwriter may from year to year know what he is doing? In looking at your last report I see that fifty years ago an eminent man in fire insurance expressed the hope that the results of fire insurance in the different countries would be tabulated, and that in this manner they would accumulate in fire insurance data somewhat akin to life insurance. Has this been done to any extent in Canada? And if you had all the facts connected with all the different kinds of risks tabulated to-day, how far would they be a guide to the future, having regard to the sudden mutations of business, the extraordinary kaleidoscopic changes which occur in our industrial development from

year to year? If we have not these facts tabulated, and I suppose we must admit that we have not, if we are still in the empirical stage and, instead of looking at fire insurance scientifically, we are simply making guesses at rates from year to year, then it is but too probable that instead of our rates being influenced by a partial attempt at a scientific basis, they are merely created by the competition which exists between one company and another. We can easily understand how the underwriter, eager to get new business at a time when losses are not excessive, and having no danger line in his mind, carries his premium rates away below what is the true danger line, if it were but known, only to carry them at a later time, when heavy losses have been the result of his policy, away above that danger line. Please bear in mind that I am a layman speaking to you, and trying seriously to find out what it is that is the matter between fire insurance people and the business community at large. If rates have been made on no more scientific basis than that I have indicated, then it seems quite clear that rates have been too low in the past and are perhaps too high at the present time; or perhaps it may be true that rates never should have been lower than they are at the present time. I have no opinion to express and only wish to draw attention to the fact that if the basis of the business were scientific such wide fluctuations in rates would not take place.

The fire insurance business, I understand, even without regard to the terrible fire which has taken place in Toronto, has been unprofitable throughout its whole history in Canada. But I presume that fire insurance has not been unprofitable throughout its history, taking the world as a whole. Are we to gather that they have recorded statistics of past experience in these other countries where fire insurance has been profitable, and that they have been able to base scientific deductions thereon; or are they also in the empirical stage, are they, too, guessing at rates? But have they been able, despite this, and because of not having a foolish competition, or for other reasons, to succeed? If they have been able to succeed and we have not, is it because Canada is yet too small a country for a fire insurance company having its business only in Canada and not disposed throughout the globe to do a successful business in? I ask that



question because I hear fire insurance men in Canada constantly talking about the "conflagration hazard," and a layman does not quite understand what is meant by that. A fire is small or big; there does not seem to be generically any difference between a small and a big fire. I notice that the fire in St. John, which was regarded as a conflagration at that time, disturbed the table given in Mr. Cory's paper. But if it had happened at the present time it would not have very largely disturbed the insurance table. I notice that the Ottawa fire did not disturb the table in any very great degree. The Toronto fire, I suppose, would disturb it very largely. But if the Toronto fire had occurred at the time of the St. John fire, I presume it would have produced ruin to the Canadian companies. At the same time, I presume that such a fire as the St. John, or the Ottawa, or the Toronto fire would not have disturbed the calculations of such a company as the North British and Mercantile. Therefore, there enters in another question as to whether Canada is a large enough field for Canadian companies to do business in. I hope it is. I hope that nothing is amiss, except that we merely require time to develop the business and to learn the cost, and to charge enough to bring us within the averages which the fire insurance companies require.

Clearly the consideration of all these elements and of all the elements that I cannot think of—do not indeed know enough to think of—indicates that fire insurance is a business infinitely more difficult than life insurance, and more difficult, I imagine, than marine insurance, although that is not quite so clear to me. But it is perfectly clear to me also that fire insurance is a much more essential business to civilization and to the development of our society than life insurance. I am aware that the gentlemen here in the life insurance business will probably demur to this. But fire insurance, it seems to me, is infinitely more necessary, at least to the industrial development of the world, than life or casualty insurance. I will endeavour to illustrate my view. The increase in the industrial development of the world in the last two hundred years is one of the most extraordinary things in the history of the world. I need not remind you that by the application of steam and electricity the world has enormously increased its power to distribute intelligence and to create and distribute goods. It does not occur to people sufficiently often



to consider what the result would have been if we had not had in the world this increased power to distribute intelligence and to create and distribute goods. And if we had not had the powers of banking and insurance we could not have used these powers of steam and electricity, because the creation and distribution of goods requires that we shall be able, when we send a ship to a foreign country, to pay for the goods bought there. You could not pay for the goods bought in a foreign country if you had to carry the gold with you, because you could not possibly get enough gold. You doubtless know that only about five per cent. of all the business in North America is done with actual cash in the shape of bank notes or gold. Therefore, the power of credit, the power of banking, is absolutely essential if you are to use, in a large way, the powers of steam and electricity. But you cannot use the power of banking unless you can save the bank from the risks incident to marine and fire insurance. If you propose to use the powers of credit, steam and electricity, then fire and marine insurance are absolutely essential things in connection therewith. It is quite possible to imagine a tremendous industrial development without life insurance at all. The merchandise of the world could be created and moved and the present condition of things industrially might have been developed, although not so completely as at present, if we had fire and marine insurance, and not life insurance.

Now, if we admit that fire insurance is one of the absolutely essential things in trade, is it not a curious thing that there should be intense irritation between fire insurance underwriters and those who need fire insurance so badly? Can we doubt for a moment that if the business world were convinced that the rates charged were the rates necessary to enable fire insurance companies to pay their losses and to pay a proper profit to the shareholders, that irritation would not exist? I do not wish to get between the upper millstone of Mr. Morrissey and the fire insurance men and the nether millstone of the manufacturers. I shall not either affirm or deny that the present rates for fire insurance are necessary. I shall not, indeed, express any opinion about that at all. If they are necessary, however, I am afraid one would have to charge the fire insurance companies with not having understood their business sufficiently well when they

charged different rates before the Toronto fire from those charged after the fire, because calling the great fire a conflagration hazard seems to be merely a way of saying that it was an element in your business that you did not reckon on and did not understand. (Hear, hear).

Now, if we admit that this power of securing fire insurance is one absolutely necessary to industrial development, one we cannot do without, one every business man must reckon with and one that bankers, who are the best friends that fire insurance men have, recognize—because in my own bank if a man wishes to borrow money, and says "I cannot afford to pay three, six or seven per cent. for insurance," our answer to him is, "Then you cannot borrow money from us, because whatever rate these people charge you, that is the measure of the risk we take without insurance"—I say if there is no question about the necessity for fire insurance, then I submit to you, gentlemen, that what is necessary is a clear and more scientific understanding of your business, so that your rates may have some kind of steadiness over a series of years and may not have such wide fluctuations. So that you may not have at one moment a fire insurance underwriter, who does not know his business, insuring at a ridiculously low rate, and then, because of a conflagration, which fire insurance men had no business to suppose would not happen, raising the rate ridiculously high. Although I agree entirely with what Mr. Morrissey says about the laxity of our municipal corporations, at the same time this wide fluctuation in rate is a cause of complaint on the part of insurer without regard to whether your present rates are fair rates or not. If they are fair rates they ought to have existed over a series of years, and, if they had, business men would not complain because they would have based their profits on those rates. If they had been accustomed to these rates they would not be complaining as bitterly as they are complaining now.

All this leads to the main point of my remarks. I mainly desired to say something to the young men. I am a great deal more interested in saying something to them than in talking to experts about a business which they understand a great deal better than I do. Whether it is possible for fire insurance people over a series of years to tabulate information so that they will

really understand what the rate on any particular risk ought to be or not, it is perfectly clear to me as an onlooker—I hope the statement will not give offence to anybody here—that the people throughout the world who are in the fire insurance business do not know enough about the fire insurance business. And if this is not true of the rest of the world it is true of Canada. The record of fire insurance in Canada shows it conclusively. If you do not challenge my statement, then it behooves the younger men in fire insurance in Canada to begin to gather whatever is the necessary historical material. What the experience tables ought to be I cannot suggest, but you should clearly begin to get together such facts as will enable you to measure the risks you propose to insure in the future. You may thus in time change the record of fire insurance in Canada from the curious condition it is in to a business which, being a necessity, can be taxed for its full cost, and for enough more to pay to the insurance companies a decent, even a handsome profit, such as any enterprise in a great and growing country like Canada ought to earn. (Applause).

This brings me to my conclusion. In a few words I would like to say to the younger men: There are a great many practical people in this world who have made their way without the use of text-books, or without reading very much literature in connection with their business, and without studying the past, and who scorn the idea of institutes and of training of this kind, which after all is only college training. Now, I have been in the banking business since I was very young indeed, forty-three years in all; I have had some practical experience in it, but I have been *studying* it since the day I entered the business. And when the day comes when I have no occasion to study it any longer, and by that I do not mean the study of the mere practice of it, but of the principles which underlie it, I hope some kind providence, in the shape of my directors or of somebody else, will tell me to retire from business, because you can take my word for it that the practical man who thinks he does not need to study the principles that underlie his business is only one of the many species of fool, no matter how successful he may seem to have been.

It is only the minus man who does not need to study; the plus man will take advantage of every fact of every kind what-

ever that comes in his way in order to add it to what he has already. The able man will soon find that he cannot acquire any species of accurate and precise knowledge which has to do with man in all his wide activities and various attributes, which will not help him in life, no matter what kind of business he is engaged in, provided it is one of those businesses that has a professional side. In our schools, in the lower grades, it ought to be the practice, in teaching the rudiments, to adjust such rudimentary teaching to the stupid boy and thus to see that everybody from the most stupid to the cleverest boy learns these rudiments. But when you get into the higher walks, into the college stage of education, it is not necessary that we should fit our teaching to the stupid boy, but rather to the boy above the normal. And therefore I would say to the young insurance men of Toronto, if any of you feel that you are naturally stupid do not bother with the Insurance Institute; it won't do you any good; but if any of you feel that you are plus young men, that you are a little better than the normal; if you expect to rise, especially if you have great ambitions, as I hope every one of you has, do not conclude that an institute like this will not help you. Every fact that you can learn through an institute of this kind will make you just that much fitter in the competition which is destined to grow more and more intense as Canada grows older, than the man who has not gone through similar study. You ought to remember what Canada was when men of my age were boys, what disadvantages the older men laboured under, and what curious education some of these practical men had who do not believe in institutes like yours. You ought to thank your stars that your lines have been laid in so much happier and pleasanter places than the lines of your forefathers (Applause).



